SaskGaming

Third Quarter Report
2013

For the nine months ended September 30, 2013

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CORPORATE OVERVIEW

The Saskatchewan Gaming Corporation (SaskGaming or the Corporation) was established in 1994 as a Treasury Board Crown Corporation to operate casino gaming on behalf of the province of Saskatchewan. It currently operates Casino Regina and Casino Moose Jaw. Effective April 1, 2008, SaskGaming came under the direction of the Crown Investments Corporation of Saskatchewan (CIC). SaskGaming operates Casino Regina and Casino Moose Jaw under the regulatory authority of the Saskatchewan Liquor and Gaming Authority (SLGA).

Casino Regina, located in Regina's historic Union Station, opened to the public on January 26, 1996 and is a full-service entertainment facility offering slot machines, table games, a Show Lounge, restaurant, and on-site parking.

Casino Moose Jaw opened September 6, 2002. It offers guests table games, slot machines, food and beverage services and parking facilities. Entertainment is offered to Moose Jaw customers through a partnership with the Mae Wilson Theatre.

SaskGaming's vision is as follows:

SaskGaming is the recognized leader in providing gaming entertainment in Saskatchewan.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis highlights the primary factors that impacted the operations and financial results of SaskGaming for the nine month period ended September 30, 2013. This discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes. For additional information relative to its operations and financial position, refer to the Corporation's Annual Report for the year ended December 31, 2012.

FINANCIAL RESULTS

The following information provides details of the Corporation's financial performance for the periods July 1 to September 30, 2013 and January 1 to September 30, 2013, with comparative figures for 2012.

	Three months ended September 30				Nine months ended September 30			
(in 000s)	2013	2012	Change	%	2013	2012	Change	%
Revenue	$ 32,410	$ 34,969	$ (2,559)	(7.3%)	$ 96,824	$ 102,847	$ (6,023)	(5.9%)
Expenses	20,716	20,847	(131)	(0.6%)	62,264	62,595	(331)	(0.5%)
Income before payment to General Revenue Fund	11,694	14,122	(2,428)	(17.2%)	34,560	40,252	(5,692)	(14.1%)
Payment to GRF	5,847	7,061	(1,214)	(17.2%)	17,280	20,126	(2,846)	(14.1%)
Net Income	$ 5,847	$ 7,061	$ (1,214)	(17.2%)	$ 17,280	$ 20,126	$ (2,846)	(14.1%)

SaskGaming's net income before payment to the GRF for the third quarter of 2013 was $11.7 million, a decrease over the same period in 2012 of $2.4 million. Revenues decreased $2.5 million, and expenses decreased $0.1 million.

Year to date net income before payment to the GRF was $34.6 million, a decrease of $5.7 million. Revenues decreased $6.0 million and expenses decreased $0.3 million.

1. Revenue
   Revenue for the third quarter was $32.4 million, a decrease of $2.5 million over the same period in 2012. Year to date revenue was $96.8 million, a decrease of $6.0 million from 2012. Gaming revenues decreased $5.7 million and ancillary revenues decreased $0.3 million. The gaming revenue decrease is due to a $7.0 million decline in slot revenues offset by a $1.3 million increase in table revenues. Guest counts at Casino Regina decreased 1.1% from the prior year and Casino Moose Jaw guest counts decreased 5.9%, resulting in an overall decrease in guest counts year to date of 2.2% from 2012. Although guest counts continue to improve at both properties as a result of promotional activities, guest spend remains below 2012 levels.

2. Expenses
   Total expenses for the third quarter were $20.7 million, a decrease year over year of $0.1 million. Year to date expenses were $62.3 million, a decrease of $0.3 million from 2012. SaskGaming continues to manage its expenses in response to the declining revenues which resulted in an operating expense increase of only $0.4 million. This increase was offset by a decrease in depreciation expense of $0.6 million.

OUTLOOK

The Corporation's net income before payment to GRF target for 2013 is $52.8 million. At the end of the third quarter, net income before payment to GRF is below budget by $5.1 million. SaskGaming has not experienced the anticipated revenue growth in 2013 due to increasing competition for the gaming public's attention and a particularly slow start to the year attributed to adverse winter conditions in the first quarter. Additionally, the casino gaming market in Saskatchewan and across Canada has matured resulting in flattening or declining revenues in most jurisdictions. Adjustments continue to be made to expenditures wherever possible, including a corporate restructuring in the fourth quarter. Accordingly, SaskGaming is now forecasting a net income before payment to GRF of $41.2 million.

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Unaudited)

As at (in 000s)	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash	$ 16,898	$ 10,583
Accounts receivable	370	397
Inventory	292	320
Prepaid expenses	1,389	666
	18,949	11,966
Property, plant and equipment	65,204	66,721
	$ 84,153	$ 78,687
LIABILITIES AND EQUITY		
Current liabilities:		
Trade and other payables	$ 9,648	$ 10,345
Payable to the General Revenue Fund	5,847	6,185
Dividend payable	4,731	5,455
Short term advance	6,000	---
Current portion of long-term debt	1,452	1,385
Current portion of finance lease obligation	955	955
	28,633	24,325
Long-term debt	9,624	10,722
Finance lease obligation	6,142	6,307
	44,399	41,354
Equity advance	4,000	4,000
Retained earnings	35,754	33,333
	39,754	37,333
	$ 84,153	$ 78,687

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the three and nine months ended September 30
(Unaudited)

(in 000s)	Three months ended September 30 2013	2012	Nine months ended September 30 2013	2012
Revenue	$ 32,410	$ 34,969	$ 96,824	$ 102,847
Operating expenses	17,203	16,981	51,771	51,323
Depreciation	1,661	1,934	4,866	5,418
Taxes	777	843	2,405	2,567
Contractual obligations	753	753	2,261	2,261
Finance expense	322	336	961	1,026
Income before payment to the General Revenue Fund	11,694	14,122	34,560	40,252
Payment to the General Revenue Fund	5,847	7,061	17,280	20,126
Net income	5,847	7,061	17,280	20,126
Other comprehensive income	---	---	---	---
Comprehensive income	$ 5,847	$ 7,061	$ 17,280	$ 20,126

(See accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine months ended September 30
(Unaudited)

(in 000s)	September 30, 2013			September 30, 2012		
	Retained Earnings	Equity Advance	Total	Retained Earnings	Equity Advance	Total
Balance as at January 1	$ 33,333	$ 4,000	$ 37,333	$ 28,071	$ 12,805	$ 40,876
Comprehensive income	17,280	---	17,280	20,126	---	20,126
Dividends	(14,859)	---	(14,859)	(15,594)	---	(15,594)
Balance as at September 30	$ 35,754	$ 4,000	$ 39,754	$ 32,603	$ 12,805	$ 45,408

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the nine months ended September 30
(Unaudited)

(in 000s)	2013	2012
Operating activities:		
Net income	$ 17,280	$ 20,126
Adjustments for:		
Finance expense	961	1,026
Depreciation	4,890	5,291
(Gain) loss on sale of property, plant and equipment	(24)	127
Changes in non-cash working capital balances:		
Accounts receivable	27	(29)
Inventory	28	8
Prepaid expenses	(723)	(828)
Trade and other payables	(697)	667
Payable to the General Revenue Fund	(338)	915
	21,404	27,303
Investing activities:		
Proceeds from sale of property, plant and equipment	99	45
Purchases of property, plant and equipment	(3,448)	(4,124)
	(3,349)	(4,079)
Financing activities:		
Dividends paid	(15,583)	(15,761)
Interest paid	(961)	(983)
Proceeds from short term advance	6,000	—
Repayment of finance lease obligation	(165)	(114)
Repayment of long-term debt	(1,031)	(967)
	(11,740)	(17,825)
Increase in cash	6,315	5,399
Cash, beginning of period	10,583	13,221
Cash, end of period	$ 16,898	$ 18,620

(See accompanying notes)

SASKATCHEWAN GAMING CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013
(Unaudited)

1. Description of Business

The Saskatchewan Gaming Corporation (SaskGaming) is a corporation domiciled in Canada. The address of SaskGaming's registered office and principal place of business is 1880 Saskatchewan Drive, Regina, SK, S4P 0B2.

SaskGaming manages and operates Casino Regina and Casino Moose Jaw. SaskGaming was established under *The Saskatchewan Gaming Corporation Act, 1994* (Act) to provide for separation of regulatory and operational aspects of gaming. SaskGaming must operate in accordance with statutory provisions established under Section 207 of the *Criminal Code of Canada* and *The Alcohol and Gaming Regulation Act, 1997*. Regulation of SaskGaming's operations is controlled by the separately constituted Saskatchewan Liquor and Gaming Authority.

SaskGaming operates under the direction of its owner, the Crown Investments Corporation of Saskatchewan (CIC). CIC is the provincial government's holding corporation for its commercial Crown corporations. The financial results of SaskGaming are included in the consolidated financial statements of CIC.

2. Basis of Preparation

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 28, 2013.

b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for financial instruments which are classified as fair value through profit and loss, which are measured at fair value.

c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is SaskGaming's functional currency.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements include: useful lives of property, plant and equipment and the customer loyalty program.

3. Significant Accounting Policies

The accounting policies applied by SaskGaming in these condensed consolidated interim financial statements are consistent with those applied by the SaskGaming in its December 31, 2012 annual financial statements, except as described in Note 4.

4. Application of Revised International Financial Reporting Standards

The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2013, have been applied in preparing these condensed consolidated interim financial statements:

- IFRS 10 "Consolidations"
- IFRS 12 "Disclosure of Interests in Other Entities"
- IFRS 13 "Fair Value Measurement"
- Amendments to IAS 32 "Financial Instruments: Presentation" and
- Amendments to IFRS 7 "Financial Instruments: Disclosures"

The adoption of these standards had no material impact on the consolidated financial statements. The new disclosure requirements will be provided in the 2013 annual consolidated financial statements.

5. Short term advance

The short term advance is due to the Government of Saskatchewan's General Revenue Fund. The advance has an interest rate of 1.01% and matures December 31, 2013.

6. Fair Value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk and remaining maturities. Fair value measurements are

subjective in nature, and represent point-in-time estimates which may not reflect fair value in the future.

The methods and assumptions used to develop fair value measurements have been prioritized into three levels as per the fair value hierarchy included in IFRS. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs other than quoted prices included in Level one that are observable for the asset or liability. Level three includes inputs that are not based on observable market data.

The fair values of long term debt and finance lease obligation are estimated by discounting the expected future cash flows using the interest rate of a Government of Canada bond with similar terms, adjusted for an appropriate risk premium.

(in 000s)			September 30, 2013		December 31, 2012	
Financial Instruments	Classification [1]	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	OFL	Level Two	11,076	11,551	12,107	12,792
Finance Lease obligation	OFL	Level Two	7,097	8,394	7,262	9,003

[1] Classification:
OFL - Other financial liabilities

7. Subsequent event

Subsequent to September 30, 2013, management of SaskGaming implemented a restructuring program whereby certain employees of SaskGaming were terminated. Management estimates that the costs associated with the restructuring, including severance payments, to be $3.1 million.